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March 11, 2004

VIA HAND DELIVERY

Ms. Blanca S. Bayó, Director
Division of Commission Clerk and
Administrative Services
FLORIDA PUBLIC SERVICE COMMISSION
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

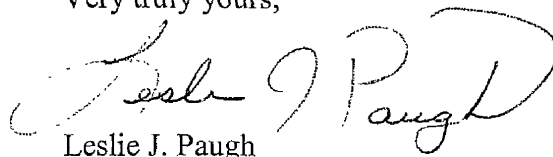
*Re: Docket No. 020233-EI; Response of Calpine Corporation to GridFlorida Applicants'
Draft Pricing Issues Positions.*

Dear Ms. Bayó:

Enclosed for filing please find one (1) original and fifteen (15) copies of the Response of Calpine Corporation to GridFlorida Applicants' Draft Pricing Issues Positions, submitted for filing in the above-referenced docket. Please also find the enclosed diskette, containing an electronic version of the Filing in Word format. Calpine Corporation's responses are indicated in add/delete format.

Please acknowledge receipt of this document by time/date stamping the enclosed additional copy of the Filing, as indicated.

Very truly yours,


Leslie J. Paugh

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

Docket No. 020233-EI
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Issue No. 1 - Regional State Committee
Calpine Response

The Florida Public Service Commission (FPSC) shall serve as the Regional State Committee for Florida. The FPSC can perform the role of a Regional State Committee as GridFlorida is a single state RTO subject to delegation of authority by FERC if deemed necessary by FERC.

The FERC shall give substantial deference to the initial decisions made by the FPSC in regard to GridFlorida. The FERC shall have a high standard for overruling an initial decision of the FPSC such that there must be a clear abuse of discretion or clearly erroneous application of law.

Calpine Position:

Given the unique peninsular geography and limited out-of-state transfer capability, Calpine does not object to the designation of the FPSC as the Regional State Committee (RSC) for Grid-Florida. However, the Florida Commission may wish to consider a broader RSC when, and if, another ISO/RTO emerges in the Southeast.

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Issue No. 2 - Jurisdictional Responsibilities (Pricing)
Calpine Response

All participating transmission owners (TO) (including investor-owned, municipal, and cooperative) will file their transmission revenue requirements with the FPSC for review and initial decision using the FPSC's methodology. Revenue requirements will be separately stated for existing facilities and new facilities (as will be determined in accordance with the demarcation dates for new facilities) such that GridFlorida can properly include facilities in zonal rates or system wide rates. GridFlorida shall provide its revenue requirements associated with the grid management charge and proposed rate design to the FPSC for review and initial decision.

GridFlorida's rates must be designed to recover the transmission revenue requirements of all TOs and the revenue requirements associated with GridFlorida's grid management charge. The grid management charge for GridFlorida shall include the annual operating costs for GridFlorida and a five-year amortization of the recovery of the start-up costs of GridFlorida. Consistent with GridFlorida's current pricing protocol, GridFlorida's rate design shall consist of (a) zonal rates, (b) system-wide rates and (c) a phase out of zonal rates in the sixth through tenth year. The FPSC shall have the opportunity to review and provide a final approval of the phase out of zonal rates prior to the end of the 5th year of commercial operations of GridFlorida.

GridFlorida and the TOs will revise the proposed rates and tariff in accordance with the initial decisions of the FPSC and will then file with the FERC for approval of its tariff. The TOs will be considered co-applicants in the filing before FERC. This filing will include separate details of each TO's revenue requirements that were incorporated into GridFlorida's rates.

All parties shall take transmission service from GridFlorida under its tariff. The GridFlorida pricing protocol will be revised to remove the current exemption for retail load. FPSC jurisdictional utilities shall be allowed to recover the incremental cost of taking GridFlorida service for its bundled retail load through recovery clause treatment (see Cost Recovery Concept section below).

~~Transmission owners shall have the exclusive, unilateral rights to make filings under Section 205 of the FPA in or relating to the establishment and recovery of the TO's transmission revenue requirements and the TOs collectively shall have the exclusive, unilateral rights to make filings under Section 205 of the FPA with regard to the rate design for their revenue requirements under the GridFlorida tariff, provided that the TOs are in agreement with any proposed rate design change. Such filing rights shall also encompass any provisions of the GridFlorida tariff governing the recovery of transmission related costs incurred by the TOs. GridFlorida shall have no such Section 205 rights with regard to TO facilities and costs. GridFlorida shall have the exclusive, unilateral right to make filings under Section 205 of the FPA regarding or relating to the tariff terms and conditions and the establishment and recovery of transmission revenue requirements and rate design for GridFlorida's facility charges, other than those portions of the tariff related to the recovery of transmission revenue requirements and rate design for TO facility charges. The TOs shall have no such Section 205 rights with regard to GridFlorida facilities and costs.~~

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Calpine Position:

The fifth paragraph of page 2 of 15 should be deleted and revised to state the following:

Transmission owners shall have the exclusive, unilateral rights to make filings under Section 205 of the FPA in or relating to the establishment of the TO's transmission revenue requirements. GridFlorida shall have no Section 205 rights with regard to the determination of revenue requirements for TO facilities . GridFlorida shall have the exclusive, unilateral right to make filings under Section 205 of the FPA regarding or relating to (i) establishment of transmission revenue requirements for GridFlorida facilities, (ii) the tariff terms and conditions, and (iii) the recovery of transmission revenue requirements and rate design.

Section 8 of the June 6, 2002 amendatory POMA language should control filings pursuant to Section 205 of the Federal Power Act relative to revenue requirements and rate design.

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The following table outlines the proposed decision making and approval process for GridFlorida:

| Decisions | GridFlorida | Transmission Owners | Other Stakeholders | FPSC | FERC |
|-------------------------------------|--|--|--|---|---|
| Tariff Terms and Conditions Changes | <p>Initiates proposed change after consulting with stakeholders by seeking initial decision from the FPSC</p> <p>Files for final approval at FERC reflecting the FPSC's initial decision</p> | Provides comments on changes prior to filings. | Provides comments on changes prior to filings. | <p>Tariff terms & conditions submitted to the FPSC for initial decision prior to GridFlorida filing for final approval at FERC.</p> <p><u>Calpine: The GridFlorida filing shall also reflect the proposal or position supported by the majority of each sector. Such positions shall be provided as information background and only the proposal approved by the FPSC shall be filed under Section 205.</u></p> | Approves tariff changes with deference to the FPSC's initial decision |

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| Decisions | GridFlorida | Transmission Owners | Other Stakeholders | FPSC | FERC |
|---|---|--|---|--|--|
| <p>Rates and Revenue Requirements for TO facilities and GridFlorida facilities</p> <p>[Calpine Note : Rates for generator provided services addressed under Market Rules and Mitigation Sections]</p> | <p>Files for rates dealing only with RTO facilities and grid management related services. Develops and files TDU adder or non-jurisdictional zonal rates from the revenue requirements or rates submitted by the non-jurisdictional TOs.</p> <p>Submits TO's changes to rates and rate design for those rates that recover the costs of more than one transmission owner's transmission facilities.</p> <p>Rates filed at FERC reflect the FPSC's initial decision.</p> | <p>Jurisdictional Transmission Owners: Initiates rate design and revenue requirement filings for transmission assets.</p> <p>Non-Jurisdictional Transmission Owners: submits revenue requirements/rates to GridFlorida for inclusion in their zonal rate or TDU adder.</p> | <p>Provide comments prior to filings.</p> | <p>Adjudicates decisions regarding rates and revenue requirements filings, subject to Florida Supreme Court review. The FPSC's initial decision is filed at FERC by GridFlorida in concert with TOs for approval which grants substantial deference to state decision.</p> | <p>Approves rates giving deference to the FPSC's decision.</p> |

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| Decisions | GridFlorida | Transmission Owners | Other Stakeholders | FPSC | FERC |
|--|---|--|---|--|---|
| <p>Participant Funding Issues <u>[Calpine: See further comments below.]</u></p> | <p>Changes to protocol fall under tariff changes above.</p> <p>Ongoing - Decides if a portion of directly-assigned upgrades for generation interconnections and other proposed investments benefit all customers of GridFlorida or should be participant funded</p> | <p><u>Calpine: Provide comments to GridFlorida decision-making process</u></p> | <p><u>Calpine: Provide comments to Grid-Florida decision-making process</u></p> | <p>Participant funding cost allocations principles submitted to the FPSC prior to filing at FERC</p> <p>Cost allocation decisions made by GridFlorida in individual interconnection agreements or other agreements are submitted to the FPSC prior to filing at FERC</p> | <p>Approves the participant funding protocol and cost allocation principles with deference to the FPSC's decisions.</p> <p>Approves generator interconnection cost allocations and other PF cost allocation agreements when approving individual interconnection or upgrade agreements with deference to FPSC decisions</p> |
| <p>Market Rules</p> | <p>Changes to rules fall under tariff changes above</p> <p>Works with Market Monitor and FPSC on changes</p> | <p><u>Calpine: Provide comments as necessary</u></p> | <p><u>Calpine: Provide comments as necessary to protect the interests of those potentially harmed by the proposed rules</u></p> | <p>Market rules submitted to the FPSC prior to filing at FERC</p> <p><u>Calpine: The GridFlorida filing shall also reflect the proposal or position supported by the majority for each sector where different. Such positions shall be provided as informational background to the FERC and only the proposal approved by the FPSC shall be filed under Section 205.</u></p> | <p>Approves market rule changes with deference to FPSC decisions</p> |

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| Decisions | GridFlorida | Transmission Owners | Other Stakeholders | FPSC | FERC |
|---|---|---|---|---|--|
| Market Monitoring and Market Power Mitigation | Changes to rules fall under tariff changes above Works with Market Monitor and FPSC on changes | <u>Calpine: Provide comments as necessary</u> | <u>Calpine: Provide comments as necessary</u> | Market monitoring and market power mitigation rules submitted to the FPSC prior to filing at FERC | Approves market monitoring and market power mitigation [<u>Calpine Comment: FPSC should not be the decisionmaker on market mitigation matters. That would undermine the independence of the monitor given the FPSC's responsibility to assure the best service at the lowest (short term) rates.</u>] |
| Annual Transmission Plan | Develops regional plan in accordance with GridFlorida's planning protocol | Provides individual plans to GridFlorida, works with GridFlorida to develop regional plan | Provides input during planning process. | Transmission plan submitted to the FPSC for final approval. | N/A |
| Transmission Siting | Co-applicant in Need Determinations with TOs | Need applications filed at the FPSC | Provides input during process if needed. | FPSC makes findings on determination of need. | N/A |

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Issue No. 3 – Participant Funding Concept for GridFlorida
Calpine Response

Cost allocation, including participant funding, for new transmission facilities within GridFlorida should be in accordance with the following eight principles:

1. Consider the need to serve the network load customers of GridFlorida in an effective manner
2. Consider all of the benefits of the facility to all customers of GridFlorida and the need to maintain grid reliability
3. Encourage proper investment
4. Send appropriate price signals relative to the market
5. Be perceived as fair and equitable to both transmission customers and parties funding transmission (where different)
6. Provide price certainty to investors and customers
7. Provide for ease of implementation
8. Participant funded projects will receive commensurate transmission rights

The GridFlorida pricing proposal satisfies the above principles in that it adopts a default cost allocation method of rolling in the costs of all standard transmission upgrades 69 kV and above into the system-wide rates charged by GridFlorida, recognizing that such facilities are needed and generally benefit all users. The GridFlorida pricing proposal also will incorporate “participant funding”. The GridFlorida Transmission Expansion Plan, as well as the cost allocation plans, will be submitted by GridFlorida to the FPSC for its review

Further, the GridFlorida pricing proposal for “participant funding”, or the direct assignment of costs, will be in accordance with the following parameters:

1. Generation Related Upgrades:
 - The costs of all new non-networked transmission facilities required to interconnect a generator will be allocated to that generator. Calpine Position: It is not clear what is meant or intended by the terms “non-networked transmission facilities.” From Calpine’s perspective, and in the context of current Florida regulatory policy, the issue of Participant Funding appears to be moot given that: (1) all new generation created in Peninsular Florida is consumed from a capacity, energy and ancillary service perspective within Peninsular Florida as a consequence of the general non-availability of export transmission capacity; and (2) given that no new economically competitive generation can be built in Florida without a determination of need by the FPSC, which determination of need is issued on the basis of a contract between a utility or an IPP and a load serving entity to service retail customers in Florida. Unless and until these physical and legislative/regulatory realities change, Participant Funding Protocols have no practical meaning, and the debate surrounding this issue appears to be in the form of a solution to a non-existent problem. .
 - The costs of networked transmission facilities required to interconnect a generator that is designated by a network customer of GridFlorida to meet its installed capacity requirements

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[Calpine Comment: “Installed capacity requirements” should include capacity (base load, intermediate or peaking), energy and/or ancillary services as all these products serve retail ratepayers’ power needs,] will be rolled into the system-wide rates charged by GridFlorida. Where the costs of networked transmission facilities are initially funded by the participant, the amount initially funded will be refunded to the participant at the time the aforementioned roll-in commences. GridFlorida will develop criteria for meeting installed capacity requirements to qualify for rolled in treatment. [Calpine Comment: If Participant Funding is adopted, rolled in rate treatment should be temporal, meaning that if after a generator connects to the system on a participant funded basis and is designated by a network customer of GridFlorida to meet its “installed capacity requirements” at a later date, the interconnection costs paid by the generator would be refunded by the interconnecting utility that owns such transmission facilities, and such costs would concurrently be rolled into the system-wide rates charged by GridFlorida.]

- The costs of all networked transmission facilities associated with the interconnection and integration of a generator that is not designated by a network customer of GridFlorida to meet its installed capacity requirements will be funded and paid for by the generator, to the extent such costs would not have been incurred but for the interconnection and do not meet the criteria for rolled in treatment.
2. Elective and Merchant Transmission Upgrades: Such upgrades include transmission projects built to GridFlorida construction standards but that are not included in the base case of an approved GridFlorida regional transmission expansion plan. The funding and costs of such upgrades will be the responsibility of the party proposing such upgrades until and unless such facilities are otherwise identified as needed from a regional perspective. When any such facilities are identified as needed from a regional perspective, the costs of those facilities shall be rolled into the system-wide rates charged by GridFlorida, and the initial funding party shall be refunded its initial capital outlay.
 3. Enhanced Facility Upgrades: The GridFlorida proposal incorporates direct assignment of costs for non-standard or “enhanced” facilities where a participant proposes to build facilities designed to meet higher standards than those developed by GridFlorida.

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Issue No. 4 – Cost Recovery Concept for GridFlorida
Calpine Response

The Applicants expect to seek cost recovery of any incremental costs (e.g. Grid Management Charge, the System Rate, or the TDU Adder costs allocated to retail load) through the retail Capacity Cost Recovery Clause mechanism, beginning with year one of GridFlorida operations. The Applicants deem costs such as these to be incremental transmission costs that are not currently being recovered through base rate charges and are thus costs that would appropriately be recovered through the Capacity Cost Recovery Clause.

While the Applicants have not developed a provision for determining the level of transmission costs that are currently being recovered through base rate charges and thus not subject to clause recovery, they believe it is premature to do so for a future GridFlorida implementation date – particularly since it is not clear what the status of each company’s base rates will be in at that time and the status for the companies may not be the same.

Cost recovery is also contingent on how transmission service for retail will be treated in GridFlorida after the first five year period given the Commission’s statement in Order No. PSC-02-1199-PAA-EI (“At the end of the initial five-year operation of the RTO, we shall review the transmission rate structure, given the operation of the RTO and the competitive market conditions in Florida.”)

For purposes of the first five year period, the Applicants remain convinced that cost recovery through the Capacity Cost Recovery Clause for incremental costs associated with transmission service for retail load is appropriate.

Calpine Position:

Calpine concurs with the proposal to recover GridFlorida-related grid operation and management costs through the retail Capacity Cost Recovery (CCRC) mechanism.

As to base rate charges not subject to CCRC, Calpine urges the Applicants to determine the level of such costs by a date certain, and no later than Dec. 31 2004, in order to establish a baseline of base rates for each company participating in GridFlorida and thereby facilitate the design and completion of the GridFlorida tariff.

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Issue No. 5 - Cut-off Dates for Existing Transmission Agreements and Facilities
Calpine Response

The Applicants have differing views on the issue of the appropriate cut-off dates for existing transmission agreements and facilities. Tampa Electric and Florida Power & Light stand by the position as described in the testimony of William R. Ashburn filed on September 27, 2002 in this docket while Progress Energy, Florida stands by the position as described in the testimony of William C. Slusser, Jr. filed on that same date in this docket.

Positions as articulated in those testimonies:

Progress Energy:

New Facilities Date - December 31, 2000
Existing Transmission Agreements Date - December 15, 2000

Tampa Electric and Florida Power & Light:

New Facilities Date - January 1 of the year GridFlorida begins commercial operations
Existing Transmission Agreements Date - January 1 of the year GridFlorida begins commercial operations

PAA Decision by FPSC (reconsideration pending):

New Facilities Date - January 1 of the year GridFlorida begins commercial operations
Existing Transmission Agreements Date - December 15, 2000

Calpine Position:

Calpine supports the Progress Energy proposed implementation schedule. Calpine opposes the cut-off date for existing transmission agreements (ETAs) proposed by Tampa Electric and Florida Power & Light. The cut-off date proposed by Tampa Electric and Florida Power & Light is in contravention of Federal Energy Regulatory Commission March 28, 2001 Order Provisionally Granting RTO Status, 94 FERC ¶61, 363. In addition, the cut off date proposed by Tampa Electric and Florida Power & Light allows the companies to unfairly manipulate the selection of ETAs which will be grandfathered thereby unjustly enriching the companies which collect the additional pancake rates.

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Issue No. 6 - Mitigation of Short-Term Revenues Concept for GridFlorida
Calpine Response

The method for mitigating loss of short-term revenues has been established in the GridFlorida filings and approved by the FPSC in Order No. PSC-02-1199-PAA-EI in Docket No. 020233-EI. Attachment T of the tariff states that:

Participating Owners that lose short-term wheeling revenue due to the elimination of pancaked rates shall be compensated for such loss through payments by the Transmission Provider out of revenues received by the Transmission Provider for short term Firm and Non-Firm Point-to-Point Transmission service. The loss of revenue for each Participating Owner shall be calculated using a base year amount of revenues from short-term Inter-Zonal service. The base year shall be the year prior to January of the year the Transmission Provider begins commercial operations. The Transmission Provider shall make payments to each Participating Owner for its base year amount in declining increments (by 20 percent per year) over the first five Tariff Years. If such revenues are insufficient in any Tariff Year to make such payments, the unfunded amounts shall be carried over and paid out of revenues in subsequent Tariff Years (but not to exceed Tariff Year 5).

Certain parties have advocated that this method be revisited, and the Applicants are willing to review any suggested alternatives proposed by existing or prospective stakeholders. However, any alternative proposal should be judged according to whether it 1) achieves the same benefits the Commission attributed to the current proposal in Order PSC-02-1199-PAA-EI, 2) satisfies the needs of the Applicants and other stakeholders and 3) treats all participants on a level playing field.

Calpine Position:

Calpine supports the recovery of short term revenue losses resulting from the elimination of pancaked rates, but believes that anecdotal evidence suggests that such losses are likely to be minimal, and therefore undeserving of complex and long term recovery mechanisms. Furthermore, the baseline year of calculations for this, as for other issues, should not remain open ended, given the probable difficulty of reconstructing data from a non-fixed period. Such data as are needed to determine the scope of these costs should be required to be held available for public view and analysis in these proceedings for the most current year, which is 2004. Under an RTO with a postage stamp network service rate, what short term transmission charges would occur outside of Out Service charges?

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Issue No. 7 - Review of Current Regulatory / Legislative Environment
Calpine Response

The Applicants will be prepared to discuss the current regulatory/legislative environment as it relates to the development of GridFlorida at the pricing issues workshop.

Calpine Position:

In the wake of recent jurisdictional tensions between Federal and State policy perspectives on transmission and electric markets, Calpine appreciates the leadership that the FPSC has displayed in seeing to create a Florida RTO. Calpine believes that GridFlorida can deliver lower cost electric service to its consumers as a result of increased wholesale competition, rate reform and greater system operational efficiency. FERC policy to encourage greater state-level involvement through Regional State Committees, and the flexibilities afforded to RTOs and ISOs as to independent entity structural variations allowed under Order No. 2003, have improved the policy landscape to implement the Florida RTO vision. These conditions provide an unprecedented opportunity for the Florida PSC to guide the creation of a grid management agency that concurrently responds to the needs and requirements of Florida's ratepayers and also absorbs the best practices of other ISOs/RTOs.

The GridFlorida deliberations could be further illuminated by related initiatives of the Florida PSC and the Florida Legislature. Among the issues that would impact the future role and functionality of GridFlorida, which could be justifiably considered in these proceedings, are:

- A study to determine which of the existing generation plants in Florida should be retired either because they are no longer economic (i.e., life extension or recurring fixed costs exceed economic benefit), or because they unduly, negatively contribute to ambient air quality, or both. This issue could be addressed as part of the initial phase of resource adequacy planning that is presumed to be a joint task of the FPSC and GridFlorida.
- Studies of the potential for effective integration into the Florida system of renewable energy resources, and their impact on system planning and operations.
- An assessment of the desirability of allowing recovery, in the rate base, of incentives to encourage competitive procurement of new supply through competitively bid Power Purchase Agreements.
- Consideration of the extent to which an accelerated operational readiness for GridFlorida would contribute to enhanced grid reliability, given lessons learned as a result of the August 2003 Midwest blackout in regard to more effective, central coordination of control area operations; designation of a clearly identifiable and accountable security coordinator for a geographically broader grid; and more effective management of loop flows across multiple systems.

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The current regulatory and legislative environment can be viewed as favoring leadership by States, not only in adapting and interpreting FERC policy but also in designing transmission structures that concurrently respect State prerogatives and meet the broader objectives of creating competitive wholesale markets for power. Such markets and structures have been shown to provide measurable benefits to ratepayers.

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Issue No. 8 - Continued Review of RTO Costs and Benefits
Calpine Response

The Applicants will be prepared to discuss the appropriate steps to be taken to address the review of costs and benefits at the pricing issues workshop.

Calpine Position:

Cost/benefit analyses of variable quality have been performed for each of the ISOs/RTOs that have been created or proposed nationwide. It is Calpine's opinion that a further cost/benefit study of GridFlorida would be of little if any policy value, given that such a study, if carried out in conventional form, would be based on assumptions and conclusions subject to constant interpretation.

A more useful initiative, in Calpine's view, would be an FPSC-directed assessment of the extent to which GridFlorida could be designed as an institution dedicated from the outset to reduce management and operational costs while measurably increasing operational performance.

Ratepayers would have a right to expect from GridFlorida, in its initial year of operation, at minimum:

- A reduction in transmission service rates resulting from the progressive elimination of pancakes
- A reduction in energy and ancillary service costs than would have otherwise existed absent competitive procurement of these services Florida-wide
- A further reduction in energy costs than would have otherwise existed absent coordinated dispatch of units
- A reduction in congestion and related costs to levels lower than would have otherwise existed absent the integrated operation of what are now separate and independently operated control areas
- An improvement in energy flows and system control resulting from integrated management of the control centers
- Initial locational price signals to indicate optimal economic siting of new capacity and degree of congestion pricing to be reduced by further investment in either transmission capacity or relays or operational behavior.

**CERTIFICATE OF SERVICE
DOCKET NO. 020233**

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U.S. Mail to the following parties on this 11th day of March, 2004.

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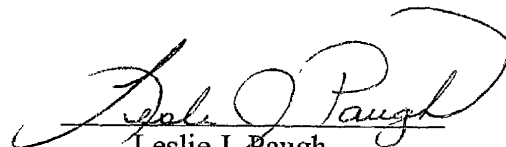
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